

**City of Seattle Voluntary Deferred Compensation Plan
Minutes of Regular Plan Committee Meeting
Wednesday, November 12, 2014 10:00 AM – 12:00 PM
Seattle Municipal Tower, Room 4096**

TRUSTEES present: Teri Allen, Ken Nakatsu, Glen Lee, Susan Coskey, Bill Alves and Marty Yellam (**absent:** Scott Best)

STAFF present: Florence Katz, Crystal Roncek and Renee Freiboth, SDHR; George Emerson, FAS; Jeff Slayton, CAO

CONSULTANTS present: Jake O'Shaughnessy, Arnerich Massena, Inc.; Bob Belanger, Stacy Siewert and Jason Tuscher, Prudential Retirement

GUESTS present: Dennis Karl, IAFF Local 27; Michelle Stuhrman, Moss Adams; Steve Ebert, Nationwide Retirement; Anne Cappel, Great West Financial; Michael McAtammey, TIAA-CREF

BUSINESS

Opening: Teri Allen, the Committee Chair, started the meeting at 10:04 AM. No one from the public provided a comment.

Introductions: All attendees introduced themselves.

Minutes of Last Meetings: Teri Allen provided a few minutes for the review of the September 10 meeting minutes.

MOTION: Susan Coskey moved to accept the minutes without change. Ken Nakatsu seconded the motion. Upon a call for a vote, the motion to approve the minutes carried unanimously.

Public Comment: Teri Allen asked if there were any public comments. There were none.

Auditor's Report and Financial Statements for the Years Ending 12/31/2013 and 12/31/2012: Michelle Stuhrman of Moss Adams provided thanks to Plan staff for their cooperation in providing data and answers to questions. She quickly reviewed the steps in the audit process and presented an "unmodified opinion" on the Plan's financial statements with no findings of any material weaknesses in internal controls. These summary findings were based on the review of the revised Plan Document; internal controls information; interviews; and a sample of deferrals (pre-tax and Roth), unforeseeable emergency withdrawals, fund trades and other transactions.

Funding for Record-Keeper Search: Teri Allen and Florence Katz asked the Committee to confirm the planned expenditure of \$65,000. This money will be used to pay the consulting costs to be incurred by Arnerich Massena to support the Plan's imminent record-keeper search.

Upon questioning, they reminded the Committee that a search sub-committee (Teri Allen, Marty Yellam, and Scott Best, along with Crystal Roncek, Florence Katz and Elsie Ling) had been formed months ago and an initial meeting had been held with Arnerich Massena on the procurement. Glen Lee was concerned that Council would need to approve the procurement cost, but input from Jeff Slayton and others clarified that Council did not need to be involved in this funding decision because it is outside the City budget; the money will come directly from the Deferred Compensation Plan's expense account held by Prudential Retirement.

Another question arose about the annual fee charged by Arnerich Massena for investment consulting services; Florence reported this to be \$55,000.

MOTION: Glen Lee moved to authorize the \$65,000 expenditure for record-keeper search support. Marty Yellam seconded the motion. Upon a call for a vote, the motion carried unanimously.

Investment Consultant's Report: Jake O'Shaughnessy presented the Q3 investment report in a revised format, in conformance with input he had received from the Investment Portfolio Subcommittee (IPS) on 11/7. He provided some general information on the US Gross Domestic Product since Q1 2008, some comparative information on US GDP growth and bond yields relative to those of other major economies, information on US purchasing power and returns on a variety of investment options.

He then presented an investment menu scorecard specific to the Plan, noting that its "batting average" and peer group rankings have met objectives for the second and third quarters of 2014. Jake then discussed the "on-watch" language in the Plan's Investment Policy Statement, focusing on financial performance considerations. Florence noted that other criteria can be also used with regard to placing an investment on watch, taking it off, or deciding to replace it.

With that Jake recommended, on behalf of Arnerich Massena, that Calamos Growth I be discontinued as soon as possible, following the consideration and recommendation by the IPS of a mapping strategy concerning placement of participants' Calamos funds into replacement investment(s). Jake suggested that two funds in the line-up would meet the need.

Jake then recommended that the Committee place PIMCO Total Return Fund on watch in light of major changes to its management team.

MOTION: Glen Lee moved to place PIMCO on watch. Susan Coskey seconded the motion. Upon a call for a vote, the motion carried unanimously.

The Committee then decided that the Investment Policy Subcommittee should meet before the January 15 regular meeting of the full Committee.

Jake moved on to discuss the Wells Fargo Stable Value Fund, noting its fund advisor is Galliard Capital Management, Inc. He noted that a stable value fund is a good capital

preservation vehicle for participants concerned about minimizing risk, because its underlying investments are “wrapped” by an insurance policy to ensure that the holding maintains its book value (through the insurance) even if the investment’s market value declines. (Alternatives could include money market funds offering low earning and no insurance.) He indicated that the stable value arrangement is acceptable for the Plan now, but may need to be revisited in the future because the cost of the insurance wrap is going up.

Jake alluded briefly to the Calvert Social Investment Equity I fund, indicating his preference for an index-based fund. He indicated that the IPS had discussed socially responsible investments and that Arnerich Massena would bring an associated recommendation, following IPS review, to the full Committee.

In light of the seeming Committee preference for having the Investment Portfolio Subcommittee and the full Committee meet more frequently to address the plan’s investment menu, Florence Katz committed to having the IPS meet before the January Committee meeting; Susan Coskey and others were interested in participating in that and future discussions. Florence raised the issue before the Committee of the possible need for an adjustment to Arnerich Massena fees if the firm was to attend more meetings for the Plan; she indicated that the topic would be dealt with further off line.

Record-keeper Update: Bob Belanger reviewed some high-level plan statistics for Q3 2014, noting a decrease in active contributors compared to the same time period in 2013. For the year ending 9/30/2014 compared to the prior year, more loans were paid off and fewer granted.

There was a brief discussion about possible federal legislation affecting 457 (b) plans. Crystal Roncek had heard that there was consideration of the introduction of a maximum on pre-tax contributions and of extending the 10% penalty for distributions/withdrawals prior to age 59-1/2. Bob Belanger suggested that there is no clear direction to possible legislation, as Congress has to deal with the conflicting demands of the “retirement crisis” (and providing tax incentives to encourage long-term saving) and the “revenue crisis” (and the need to generate new revenues to reduce the debt).

Staff Update: Florence mentioned that the matter of proxy voting was being delayed until a future meeting to allow internal and outside counsel to formulate a clear proposal. She noted the balance in the expense account now held in trust by Prudential Retirement, and the increased contribution limits for 2015; Crystal answered some questions about the multiple venues where the new contribution limit information is posted. Florence then noted that she would be leaving her position and thanked the group.

Adjournment: At approximately 11:13 AM Glen Lee moved to adjourn. Ken Nakatsu seconded the motion, which received a unanimous vote.

Next Meeting: The next regular meeting is scheduled for Thursday, January 15, 2015 at 10 AM in the Seattle Municipal Tower, Conference Room 4070.

DRAFT